

Transmission Workstream Minutes
Thursday 06 September 2007
Ellexon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chairman)	JB1	Joint Office
Alex Barnes	AB1	BG
Amrik Bal	AB2	Shell Gas Direct
Angus Paxton	AP	Poyry Energy Consulting
Chris Logue	CL	National Grid NTS
Charles Ruffell	CR	RWE Npower
Chrissie Sykes	CS	Statoil
Chris Wright	CW	BGT
Fergus Healey	FH	National Grid NTS
John Baldwin	JB2	Excelerate Energy
Jeff Chandler	JC1	Scottish and Southern Energy
Joy Chadwick	JC2	ExxonMobil
Leigh Bolton	LB	Cornwall Energy Associates
Liz Spierling	LS	Wales & West Utilities
Mark Freeman	MF	National Grid Distribution
Martin Watson	MW	National Grid NTS
Phil Broom	PB	Gaz de France
Paul O'Donovan	POD	Ofgem
Richard Fairholme	RF	EON UK
Roddy Monroe	RM	Centrica Storage
Rekha Patel	RP	Waters Wye Associates
Sofia Fernandez Avendaño	SFA	Total
Steve Gordon	SG	Scottish Power
Stefan Leedham	SL	EDF Energy
Stephen Rose	SR	RWE Npower
Stuart Waudby	SW	Centrica Storage
Tim Davis	TD	Joint Office

1. Introduction and Status Review

JB welcomed all attendees to the meeting.

0.0 Minutes from June Workstream Meetings

The minutes for the meeting held on 02 August 2007 were accepted.

0.1 Review of Outstanding Actions

Appendix A provides a tabular summary.

Action TR1067: Provide timeline demonstrating the interactions between various auctions. (National Grid NTS)

Update: It was accepted that recent information provided had covered this action.
Action closed.

Action TR1068: Return to the Workstream to present a detailed overview of the interaction of the capacity regimes and the operation of the gas market. (Ofgem)

Update: POD believed this had been addressed as part of the entry capacity baselines reconsultation process. It was agreed to carry the action forward pending completion of that. **Action carried forward.**

Action TR1071: Safety Monitors - production of outline proposal, subsequent to closure of the focus group: CW to follow up with MY.

Update: CW did not believe this was a pressing issue, and asked for the action to be carried forward to the next meeting. **Action carried forward.**

Action TR1073: National Grid NTS to consider the provision of historical Buy Back/TFA information relating to the past 4 – 5 winters (excluding Gas Quality).

Update: MW questioned whether this was still necessary, but it was agreed to carry the action forward. **Action carried forward.**

Action TR1074: National Grid NTS to provide information on planned NTS investment.

Update: Published on 3 September. **Action closed.**

Action TR1075: All to provide views to National Grid NTS on what Shippers would want to see offered to make the process more predictable.

Update: Modification Proposal 0159 implemented. **Action Closed.**

Action TR1077: MW to check any implications for users on increased physical security and report back on level of costs if any.

Update: MW asked for this to be carried forward. **Action carried forward.**

0.1 Review of Workstream's Modification Proposals and Topics

1.3.1 Modification Status Report (Modification Proposals Register¹)

The following Proposals had been implemented:

- 0104 "3rd Party Proposal: Storage Information at LNG Importation Facilities", (implementation on 01 October 2007).
- 0159 "National Grid NTS discretionary release of Interruptible NTS Entry Capacity" (implementation on 01 September 2007).

The following Proposals had been withdrawn:

- 0163 "Offering Capacity at Donor ASEP in Trades & Transfer Process". Withdrawn on 03 August 2007.
- 0163V "Offering Capacity at Donor ASEP in Trades & Transfer Process". Withdrawn on 03 August 2007.

Ofgem's decision was awaited on the following Proposals:

- 0143 "Reduction of Lapse Periods in respect of Failure Notices issued in respect of Energy Balancing Credit". UNC Modification Panel recommended implementation.
- 0149 "Gas Emergency Cashout Arrangements: Keeping On the Day Commodity Market open during a Gas Deficit Emergency". UNC Modification Panel did not recommend implementation.
- 0149A "Gas Emergency Cashout Arrangements: Keeping On the Day Commodity Market open during a Gas Deficit Emergency". UNC Modification Panel recommended implementation.
- 0153 "Amendment of Interconnector UK's Network Entry Provisions". UNC Modification Panel recommended implementation.
- 0154 "Enduring Provisions for LDZ System Entry Points". UNC Modification Panel did not recommend implementation.

¹ <http://www.gasgovernance.com/Code/Modifications/>

- 0156 and 0156A “Transfer and Trading of Capacity between ASEPs”. UNC Modification Panel recommended implementation of both Proposals, with a preference expressed for 0156A.
- 0169 “Transfer and Trading of Capacity between ASEPs”. UNC Modification Panel recommended implementation.
- 0169A “Transfer and Trading of Capacity between ASEPs”. UNC Modification Panel did not recommend implementation.

The following Proposals had been issued for consultation:

- 0164 “Bi-Directional Connection Point Overrun Charge Calculation”.
- 0170 User Admission Requirements for Applicant Shippers Who Solely Wish to Participate in Long Term Entry Capacity Auctions

The UNC Modification Panel had requested that, prior to being issued for consultation, legal text be prepared for the following Proposal:

- 0165 “Change to Measurement Provisions Change Process”.

1.3.2 Topic Status Report

003TR Review of Exit Capacity Arrangements

A Review Group had been set up in response to Review Proposal 0166 “Review of necessary reform of NTS Offtake Arrangements”. Nominations have been sought and the initial meeting followed this Workstream (06 September 2007).

008TR Entry Capacity

The baseline reconsultation process was continuing, with papers available on the Joint Office website. Decisions on trade and transfer Modification Proposals were imminent.

018TR Information Transparency.

0140: “Review of Information Provision on National Grids Information Exchange.” Minutes from the meeting which took place on 21 August 2007 are available on the Joint Office website. The next meetings were scheduled for 18 September and 08 October 2007 at Elexon Offices, 350 Euston Road, London NW1 3AW.

019TR Emergency Market Arrangements

See 1.3.1 above.

014TR Operating Margins Procurement

Status: Remained On Hold.

015TR Constraint Management

Status: Remained On Hold.

016TR Storage Commodity Charge

Status: Remained On Hold.

020TR Gas Quality

Status: Remained On Hold.

2. Topics

2.1 Draft Modification Proposal: “Revised Tender Timescale for DN Interruption Arrangements”

MF presented a brief overview of the draft Proposal and invited questions. MF confirmed to JC2 that the site eligibility notification would only be issued to the

registered Shipper. PB welcomed the draft proposal and the fact that the DNs had listened to issues raised.

The Workstream agreed to recommend to the Modification Panel that the Proposal was sufficiently developed to proceed to consultation.

2.2 Draft Modification Proposal: “Revision to Entry Over-run Charges – Weighted highest prices paid”

SW presented a brief overview of the draft Proposal and invited questions. AB1 questioned the interaction with the recently implemented Modification Proposal 0159, which facilitated the release of interruptible capacity when physical capacity was available, and believed this removed the gaming opportunity. SW suggested that this required trust that all physical capacity would be released. AB1 argued that there could be no overrunning if National Grid NTS was not releasing interruptible capacity even in the face of high prices (signalling demand for capacity) since that indicated there was no physical capability available to accommodate overruns. AB1 invited National Grid NTS to confirm that if physical capability was available, the expectation would be that interruptible capacity would be released.

SW countered that overrun charges tended to arise from mistakes rather than constraints, and accepted that the drafting of the Proposal would need to be refined significantly to clarify the intent and impact.

AB2 asked whether there was any logic between the choice of weighting the highest 5% as opposed to any other percentage. SW accepted this was necessarily arbitrary, in the same way as the 8 times overrun multiplier is, but that 5% seemed to be the right order of magnitude.

MW asked if implementation of this Proposal might influence bidding behaviour in subsequent auctions, for example not competing with a high bid because it would no longer influence the overrun price. SW would be surprised if this was the case.

CS suggested there would be a risk that implementation might encourage overrunning, which CR supported as a possibility. SW was not convinced this would be economic.

JC2 asked if there was any evidence of this type of gaming having been seen in practice. SW suggested this could not be identified from the information released by National Grid NTS. CS asked about the availability of data on the scope of overrunning and whether there was any pattern to this, as an indication of the potential scale in reality. MW asked for clarity if data was to be provided as to exactly what was sought.

CR suggested that the 8 times discipline was intended to kick in when the system was under stress, and this should not be undermined – which MW supported.

AB1 recognised that a perception of scarcity of entry capability was being created through regime changes and fully supported measures to prevent gaming, but was not clear what would be achieved through the Proposal. On “normal” days AB1 presumed National Grid NTS would release additional interruptible capacity if it was physically possible to accommodate the flow, and on high price “difficult” days the appropriate question would be why National Grid NTS was not releasing more capacity, not why people were or were not overrunning.

RF supported SW’s view that there is an issue when mistakes are made and the penalty through the overrun charge is high – this was different to a Shipper choosing to overrun. AB1 suggested this was about the level of the overrun multiplier, not gaming, and again questioned the root of the problem. SW explained that the nub of the issue was the potential ability for a capacity holder to increase the value of its capacity holdings through deliberately setting the overrun charge at a high level.

JB1 asked how it would be possible to identify an inappropriate bid for gaming purposes as opposed to a genuine high bid. SW accepted that there was no clear way of demonstrating this.

SW agreed to reconsider the draft Proposal in light of the feedback, and invited further feedback by email or phone.

3. Any Other Business

3.1 Urgent Modification Proposal 0170 User Admission Requirements for Applicant Shippers Who Solely Wish to Participate in Long Term Entry Capacity Auctions

RP provided an overview of this Urgent Proposal, which had been issued for consultation on 05 September, and invited questions.

AB1 asked which UNC obligations the Proposal was seeking to avoid and how credit would be affected. RP explained that credit is not required for the long term auctions - no additional funds need to be provided when bidding but only ahead of the capacity year. AB1 asked what happened if the User subsequently decided not to go ahead and fully accede to the UNC. RP said they would remain bound by the commitment, like all other participants, for capacity secured in advance.

FH explained that four months was normally required to complete, in particular, the credit vetting process ahead of accession to the UNC, for the protection of all UNC parties. In addition, IX equipment would be sourced in the period. FH asked when the party concerned had first approached xoserve. RP was not aware of the precise date, but suggested that the prospective changes to the entry regime and baselines had increased the desire to be able to participate in the September auction.

CS suggested that the concerned party could go through the usual channels and request an April QSEC auction. RP repeated that the party concerned believed that hitting the September auction was important to their business.

SR asked about the reference by RP to including a sunset clause such that the Proposal would not be enduring. RP confirmed that the Proposer would be prepared to vary the Proposal to include such a clause, but this was not part of the present draft.

AB1 asked why the party concerned could not get a different Shipper to bid on its behalf – a bilateral negotiation - rather than changing the UNC which affects all Users. RP confirmed this option was also being considered.

CW said he would be more sympathetic if there had been an unforeseen problem which meant that xoserve needed four months to complete the accession process, but FH confirmed the timescale was standard and not an exception.

MW raised a concern that the suggested legal text and the Proposal potentially opened up the possibility of non-Shippers taking part in an auction, which could be a breach of the Gas Act. In addition, MW was concerned that the Proposal did not clearly establish that the accession lifecycle would be completed such that the relevant party could be invoiced at some stage in future.

AB1 confirmed that his concern was that all parties would be exposed to risk and that, for whatever reason, parties did not always see their intentions through to the end point. MW confirmed that National Grid NTS had sympathy with the intention of the Proposal. However, National Grid NTS see credit as a fundamental issue, and any UNC Modification would have to leave National Grid NTS compliant with the Gas Act. He was also concerned that the legal drafting could be very resource intensive, effectively requiring a trawl of the whole UNC to identify which sections were to be disapplied and a new class of User created.

AB2 supported the view that apart from contracting with a different Shipper, a specific auction could be requested, such that two routes already existed for dealing with the issue rather than changing a fundamental UNC principle, which would be a general change open to any party to use in future. Revisiting the principles behind the UNC seemed inappropriate and unnecessary.

JB1 reminded the Workstream that representations had been invited by 10 September and should be based on the Proposal as it stood rather than a possibly varied Proposal to incorporate a sunset clause.

3.2 Release of Interruptible Capacity

FH explained that National Grid NTS were considering changing the time when interruptible capacity is made available within day when capacity has been scaled back but could subsequently be released due to changes on the System within day. However, Gemini could not support this at present and the issue was being raised at the Workstream to highlight that National Grid NTS would not therefore be proposing to restore this element of interruptible capacity this Winter. RM asked for confirmation that, with all effort, this could not be achieved in time for this Winter. FH indicated that hitting the February release would be challenging, and earlier implementation was impossible. Looking at manual data fixes, xoserve had suggested that this route was also not feasible. National Grid NTS were looking at other possible routes to achieve the same aim, such as releasing non-obligated firm capacity, but were not convinced that anything could be implemented for the forthcoming Winter.

3.3 Limit on capacity buy-back costs

CW raised the new obligation in National Grid's NTS licence to pay no more than a target price for buying back capacity when new build had not been completed, and asked what the practical implication of this was. MW indicated that National Grid NTS would be bringing forward a UNC Modification Proposal to reflect this obligation. CW questioned whether this reduced the incentive on National Grid NTS to complete investment on time. MW suggested that the intention was to protect consumers, not National Grid NTS, when there could be unlimited buy-back costs in light of, for example, unavoidable planning constraints.

4. Diary Planning

The next Transmission Workstream meeting has been arranged for 10:00hrs on Thursday 04 October 2007 at Elexon, 350 Euston Road, London NW1 3AW, with the third workshop (also at Elexon) to consider entry capacity baselines arranged for 12 September 2007, 10:00 – 12:45.

Appendix A: Action Log – UNC Transmission 06 September 2007

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TR 1067	07/06/07	2.1	Provide timeline demonstrating the interactions between various auctions.	National Grid NTS (Martin Watson)	It was accepted that recent information provided had covered this action. Action closed.
TR 1068	07/06/07	2.2	Return to the Workstream to present a detailed overview of the interaction of the capacity regimes and the operation of the gas market.	Ofgem (Paul O' Donovan)	Being addressed as part of the entry capacity baselines reconsultation process. Carried Forward
TR 1071	05/07/07	1.2	Safety Monitors - production of outline proposal, subsequent to closure of the focus group.	BGT (Mike Young)	To be presented to next Workstream. Carried forward
TR 1073	05/07/07	2.1	Revised action: Recent instances of TFAs without associated buy-backs – MW to consider.	National Grid NTS (Martin Watson)	Carried forward
TR 1074	02/08/07	3.2	Provide information on planned NTS investment.	National Grid NTS (Chris Bennett)	Published 03 September 2007. Action Closed.
TR 1075	02/08/07	5.1	MP0159: All to provide views to National Grid NTS on what Shippers would want to see offered to make the process more predictable.	ALL	Modification Proposal 0159 implemented. Action Closed.
TR 1077	02/08/07	6.2	Increased security at Entry Terminals: MW to check facts and report back on level of costs if any.	National Grid NTS (Martin Watson)	Carried forward